

# State of Colorado



**Bill Ritter, Jr.**  
*Governor*

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## DPA

**Department of Personnel  
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Honorable Bill Ritter  
Governor of Colorado  
136 State Capitol Building  
Denver, Colorado 80203

Honorable Senator Moe Keller  
Chair, Joint Budget Committee  
Colorado General Assembly  
200 East 14<sup>th</sup> Avenue  
Denver, Colorado 80203

Dear Governor Ritter and Senator Keller,

In accordance with Section 24-50-104 (4), C.R.S., the Department of Personnel & Administration is required to submit an Annual Compensation Report as well as a letter of recommendation for annual adjustments to state employee compensation. The State Personnel Director's recommendation must consider the results of the annual compensation survey, fiscal constraints, and the ability to recruit and retain state employees. Also, the recommendation letter must outline the reasons for any deviation from report findings. This letter summarizes the findings of the Annual Compensation Survey Report and articulates the Director's Recommendation. (The full FY 2010-11 Annual Compensation Survey Report can be located at: <http://www.colorado.gov/dpa/dhr/comp/pay.htm>)

## ANNUAL COMPENSATION FINDINGS AND RECOMMENDATION

Given the findings of the annual compensation survey, which indicates that on average state employee salaries are 1.3 percent higher than the market, our range midpoints are 2.5 percent higher than market, and the current General Fund shortfall within the State, it is not appropriate to recommend any increases in salary in FY 2010-11. However, the State is still required to pay an Amortization Equalization Disbursement (AED) and a Supplemental Amortization Equalization Disbursement (SAED) payment to PERA in accordance with the implementation of Section 24-51-409, C.R.S. (SB06-235). The recommended funding provides the budget authority necessary to make these payments. Additional funding is necessary to maintain the

current benefit contributions levels. Therefore, the Department is recommending an additional \$15,162,123 as show in the following table.

<b>FY 2010-11 TOTAL COMPENSATION RECOMMENDATIONS AND ESTIMATED ADDITIONAL COST</b>		
<b>Type of Compensation</b>	<b>Prevailing Market Compensation</b>	<b>Recommended Compensation</b>
SAED and AED	NA	\$14,602,109
HLD Contributions	\$11,426,098	\$560,014
Total Compensation Package New Dollars	\$11,426,098	\$15,162,123

## **STATE EMPLOYEE SALARIES**

In an ongoing effort to improve the annual compensation survey process and in response to recent audit recommendations, the Department made significant modifications to its survey methodology this year, including comparing actual salaries and midpoints with the market. The table below outlines the findings by occupational groups based upon actual salary comparisons and salary range adjustments. Although average salaries and midpoints are above market for state employees, other factors described later in this report under “State Contributions for Benefit Plans”, have an offset effect on these averages and need to be remedied in the future. In addition, data regarding existing salaries may be misleading because they include two different approaches. The most tenured employees, those with 10 or more years, are grouped at the top of the range as a result of the historical step system. The more recent hires are, in most cases, clustered around the bottom of the range. The combination of future retirements and no salary increases for FY 2010-11 and possibly FY 2011-12, the market salary issue is self-correcting and in fact may produce employee salaries under the market.

<b>Comparison of State Average Actual Salaries and Midpoints to the Market <sup>1</sup></b>	<b>Median (50<sup>th</sup> Percentile)</b>	<b>Range Midpoints</b>
Enforcement And Protective Services <sup>2</sup>	-9.3%	-6.5%
Health Care Services	4.5%	-1.7%
Labor, Trades & Crafts	2.9%	2.8%
Administrative Support & Related	7.5%	3.0%
Professional Services	-3.1%	-3.3%
Physical Science & Engineering	-8.8%	-7.3%
<b>Overall Average</b>	<b>-1.3%</b>	<b>-2.5%</b>

<sup>1</sup> Negative figures represent occupational groups where state employee salaries exceed salaries in the market. Positive figures represent occupational groups where state employees salaries lag salaries in the market.

<sup>2</sup> Does not include Trooper classes.

Pursuant to statute, the Trooper class series has a separate survey methodology as illustrated in the following table.

<b>Comparison of State Trooper Actual Salaries and Midpoints to the Market <sup>1</sup></b>	<b>% Difference at 99% of Market</b>	<b>Range Midpoints <sup>2</sup></b>
State Patrol Intern	Insufficient Data	-9.0%
State Patrol Trooper	10.3%	-6.5%
State Patrol Trooper III	Insufficient Data	-7.3%
State Patrol Supervisor	-2.5%	-1.7%
State Patrol Admin I	-0.8%	8.6%
State Patrol Admin II	-1.2%	6.5%
<b>Overall Difference</b>	<b>7.7%</b>	
<sup>1</sup> Negative figures represent occupational groups where state employee salaries exceed salaries in the market. Positive figures represent occupational groups where state employees salaries lag salaries in the market. <sup>2</sup> The comparison of the State's salary range midpoints for the Trooper classes were made to the overall market, as only two of the three statutorily defined market employers reported range data.		

## STATE CONTRIBUTIONS FOR GROUP BENEFIT PLANS

Concerning the State's total contribution to group benefits, an increase of \$560,014 over the FY 2009-10 Health, Life, Dental appropriations is required for the next plan year. This adjustment will maintain our employer contribution to premiums at 90 percent of market employer contributions for medical, 85 percent for dental, and an estimated 72 percent for life insurance.

The following table shows the year-to-year change in group benefit plan contributions between the recommended FY 2010-11 contribution and the State's current employer medical contribution dollars by tier.

<b>Year-to-Year Change in Health, Life, and Dental State Contributions</b>			
<b>Medical Insurance Contributions</b>			
	<b>FY 2009-10</b>	<b>FY 2010-11</b>	<b>Incremental Change</b>
<b>Tier 1</b>	\$350.66	\$352.00	<b>\$1.34</b>
<b>Tier 2</b>	\$592.54	\$594.49	<b>\$1.95</b>
<b>Tier 3</b>	\$627.10	\$629.14	<b>\$2.04</b>
<b>Tier 4</b>	\$868.98	\$871.63	<b>\$2.65</b>
<b>Dental Insurance Contributions</b>			
	<b>FY 2009-10</b>	<b>FY 2010-11</b>	<b>Incremental Change</b>
<b>Tier 1</b>	\$20.72	\$19.77	<b>(\$0.95)</b>
<b>Tier 2</b>	\$33.86	\$32.16	<b>(\$1.70)</b>
<b>Tier 3</b>	\$35.72	\$33.92	<b>(\$1.80)</b>
<b>Tier 4</b>	\$48.86	\$46.31	<b>(\$2.55)</b>

<b>Life Insurance Rates</b>			
	<b>FY 2009-10</b>	<b>FY 2010-11</b>	<b>Incremental Change</b>
<b>Tier 1</b>	\$9.40	\$9.40	(\$0.00)
<b>Tier 2</b>	\$9.40	\$9.40	(\$0.00)
<b>Tier 3</b>	\$9.40	\$9.40	(\$0.00)
<b>Tier 4</b>	\$9.40	\$9.40	(\$0.00)

Although the Department had set a strategic goal to achieve 100 percent of prevailing employer contributions to group benefit plans premiums, given the condition of Colorado's economy and budgetary concerns, we are recommending maintaining the FY 2009-10 employer contribution to premiums at 90 percent of market employer contributions for medical, 85 percent for dental, and an estimated 72 percent for life insurance. However, this measure of employer contributions only reflects a portion of the picture related to prevailing employee compensation related to group benefit plans; employee out-of-pocket costs are not reflected in this measure. If the State wants to be prevailing on the basis of plan designs and cost sharing while still providing benefits that are affordable for employees, the state contribution would need to increase significantly. For example, for Fiscal Year 2008-09, the State self-insured plan covered 76 cents of every dollar of medical care expense and the employee paid 24 cents (through co-pays, deductibles, co-insurance). For the same period, the cost-sharing ratio for Great West-Cigna's book of business nationwide was 85 percent for the insurance plan and 15 percent for plan participants. The additional expense to employees is even greater when premium contributions are factored into the analysis. Based upon 2009 Hewitt data, average employee costs, including premium and out-of-pocket expenses (co-pays, deductibles and coinsurance) are \$3,826 annually. The FY 2008-09 average state employee costs are \$8,705; \$4,879 more than the average.

In addition, as reported in the Annual Compensation Survey Report, the basic life insurance provided in the market equates to 1.4 times the annual salary on average. Beginning July 2009, the State increased its life benefit to \$50,000 for all employees; this is estimated to be 72 percent of prevailing market benefits. Thus, while this is more competitive than in previous years, it still significantly lags the market life insurance on average.

The State remains committed to meeting its statutory obligation to offer competitive total compensation to its employees. While state employee salaries may be slightly above market actual salaries overall, group benefit plans are funded significantly below market levels when considering all factors (e.g., employer contribution, plan design and cost-related factors, and cost-sharing between employees and the State). Therefore, a comprehensive market comparison analysis is needed to determine how total compensation for state employees compares to total compensation within the market. While funding may not be available in the short-term, it remains vital that the State continue its statutory obligation to research, review, and consider prevailing total compensation for its employees to ensure the State is able to recruit and retain a qualified workforce.

As in past years, an updated recommendation will be provided in December that incorporates additional survey data from major surveys not available at this time, the most recent Employment Cost Index (ECI), updated enrollment figures, and consideration to the most current statewide budgetary needs.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Rich Gonzales', written in a cursive style.

Rich Gonzales  
Executive Director

cc: State Legislators, Cabinet Members and Higher Education Presidents.